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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 005092

SIPDIS

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TAGS: [EFIN](#) [PREL](#) [IZ](#) [IMF](#)

SUBJECT: IRAQ'S ROLLERCOASTER RIDE TO DECEMBER 23 IMF
STAND-BY ARRANGEMENT

REF: A. BAGHDAD 5073

[1](#)B. STATE 229318

Classified By: Economic Section Minister Counselor Thomas Delare, reasons 1.4 b/d

[1](#)1. (C) Summary: Popular protests against December 18 fuel prices have died down. Some southern provinces might be resisting price hikes, but the Central Government took a tough stance against recalcitrant governors December 21. In reaction to surprising news concerning last minute debt assurances necessary for the IMF Stand-By Arrangement, the Prime Minister and others in the government swung into action to elicit required support from Kuwait, Qatar and UAE. End Summary

[1](#)2. (C) The endgame to the IMF's Stand-By Arrangement(SBA) signing has been complicated. With little PUBLIC preparation, the government imposed fuel price increases, the major condition of the program. Despite some initial trepidation about holding fast to their price decision, prompted by public protests and some unhelpful statements by the Minister of Oil, the government decided not to move (ref a). The governor of Basra then publicly challenged the government in refusing to implement the price increases. The Government reacted by calling in all the governors and representatives of provincial councils on December 21, including from Basra, and ordered the provinces to implement the price increases or use their limited funds to pay the difference between local and nationally set prices.

Provincial Administration Still Uncertain

[1](#)3. (C) As of December 22, there were no reports of major public protests anywhere in Iraq over the fuel price increases. However, we have been told by the British that Basrah officially continued to resist price increases. We also have unconfirmed press reports of filling stations not implementing higher prices in Maysan, Karbala and Dhi-qar (all in the South). (Note: It is not clear whether such reports are true or if they represent more than isolated refusals to implement the new policy. End Note) Our GOI interlocutors seem to believe their internal implementation problem in the provinces does not cross an IMF red-line and that their firm stance towards the provinces at their December 21 meeting met IMF criteria. We heard from the IMF that they were "very pleased" with how the GOI handled the price increase and at the GOI's "tough stance" at its meeting with provincial governors yesterday. Most of Iraq, including the Kurdish regional governorates Baghdad and Mosul, have, in fact, increased prices.

Disbelief over "last-minute" IMF requirement

[1](#)4. (C) Upon receipt of ref B describing last minute difficulties with needed assurances from Qatar, UAE and Kuwait that they would negotiate debt relief on terms similar to those provided by the Paris Club, we called Deputy Prime Minister Chalabi, who expressed surprise at this last minute development. He said it was unbelievable that the IMF would add a new condition at the last minute and wondered if this was a deliberate effort to block the Stand-by Arrangement (SBA), given that there was little time to get these assurances. We told him that we were reaching out to the 3 countries to urge them to provide the needed assurances. He agreed to raise this with the Prime Minister. In the course of the day, we followed up with repeated discussions with Chalabi, the Director of the Central Bank and the Chief of Staff to the Prime Minister, encouraging all of them to be proactive in furthering Iraqi interests in this matter with the three Gulf States.

Caution Yellow Moves to Green

[1](#)5. (C) As a result of our promptings, Adnan Ali, the Prime Minister's Chief of Staff, told us that the PM would call his counterparts in the three countries. The PM later connected with the Prime Minister of Kuwait without much difficulty and was promised that a letter of assurance would be sent immediately to the IMF. Ali told us that the PM would keep trying on Qatar and the UAE, but expressed some dubiousness

about the PM's ability to influence Qatar. As he put it, the well had recently been poisoned with mutual slanging over the supposed anti-Shiite stance of Qatar-headquartered Al Jazeera. He later reported to us that the UAE appeared receptive toward providing assurances, while UK colleagues told us that they had reached Qatar Finance Minister al Kamal and were promised that the Qatar would deliver a latter stating that they also will provide financing assurances.

KHALILZAD